

AEROCENTURY CORP  
Form 10-Q  
May 11, 2017  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-13387  
AeroCentury Corp.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware 94-3263974  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)  
1440 Chapin Avenue, Suite 310  
Burlingame, California 94010  
(Address of Principal Executive Offices)

(650) 340-1888  
(Registrant's Telephone Number Including Area Code)

None  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

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Non-accelerated filer    Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes    No

The number of shares of the Registrant's Common Stock outstanding as of May 11, 2017 was 1,416,699.

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PART I  
FINANCIAL INFORMATION  
Forward-Looking Statements

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended ("the Exchange Act"). All statements in this Report other than statements of historical fact are "forward-looking statements" for purposes of these provisions, including any statements of plans and objectives for future operations and any statements of assumptions underlying any of the foregoing. Statements that include the use of terminology such as "may," "will," "expects," "plans," "anticipates," "estimates," "potential," or "continue," or the negative thereof, or other comparable terminology are forward-looking statements. Forward-looking statements include these statements: (i) in Item 1, "Notes to Financial Statements," that the Company believes that the accounting for its existing operating and finance leases will not be affected by adoption of ASU 2016-02, nor does it expect classification of its future leases to be significantly affected by such adoption; that the Company expects that certain pre-lease costs that are currently capitalized and amortized over operating lease terms or offset against gain on sale in sales-type leases will instead be expensed when incurred under such new standards; and that the Company does not expect to adopt ASU 2016-02 early, and expects to elect practical expedients in connection with its adoption, including not re-evaluating lease classification or capitalized initial direct costs on existing leases; that the outcome of any existing or known threatened proceedings, even if determined adversely, should not have a material adverse effect on the Company's business, financial condition, liquidity or results of operations; the Company expects to acquire two Embraer 175 aircraft during the second quarter and one during the third quarter; (ii) in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources," that the Company believes that it will be in compliance with all of its Credit Facility covenants at future calculation dates; and that the Company will have adequate cash flow to meet its ongoing operational needs, including any required repayments under the Credit Facility due to borrowing base limitations; (iii) in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Outlook," that the Company does not anticipate any future weakening of the financial condition of regional carriers in general, but believes that there may be further shakeouts of weaker carriers in the industry before the financial situation improves across the board; that the Company could experience delays in remarketing its assets, as well as lower rental rates for assets that are remarketed; that the Company will be in compliance with all of its Credit Facility covenants at future calculation dates; and that available borrowings under the Credit Facility will be sufficient to meet the Company's continuing obligations and, if the Credit Facility is expanded from its current amount of \$150 million to the maximum of \$180 million, to fund anticipated acquisitions; (iv) in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors that May Affect Future Results," that the Company believes it will continue to be in compliance with all of the covenants under its debt agreements; that as competition increases, the competition will likely continue to create upward pressure on acquisition prices for many of the aircraft types that the Company has targeted to buy and, at the same time, create downward pressure on lease rates, resulting in lower margins for the Company and, therefore, fewer acceptable acquisition opportunities for the Company; that the Company will have sufficient cash funds to make any required principal repayment that arises due to any borrowing limitations; that there may be further shakeouts of weaker carriers in economically troubled regions; that the overall industry experience of JMC's personnel and its technical resources should permit the Company to effectively manage new aircraft types; that effective mitigating factors exist against undue compensation-incented risk-taking by JMC; that the burden and cost of complying with environmental regulatory requirements will fall primarily upon lessees of equipment or the Company as owner of the equipment; that the costs of complying with environmental regulations will not have a material adverse effect on the Company; that the Company has sufficient cyber-security measures in place; that the Company's main vulnerability would be interruption to email communication, internally and with third parties, loss of customer and lease archives, and loss of document sharing between the Company's offices and remote workers; and that sufficient replacement mechanisms exist such that there would not be a material adverse financial impact on the Company's business. These forward-looking statements involve risks and uncertainties, and it is important to note that the Company's actual results could differ materially from those projected or assumed in such forward-looking

statements. Among the factors that could cause actual results to differ materially are the factors detailed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors That May Affect Future Results," including the lack of any unexpected lessee defaults or insolvency; the continued availability of financing for acquisitions under the Credit Facility; the Company's success in finding appropriate assets to acquire with such financing; a deterioration of the market values of aircraft types owned by the Company; an unanticipated surge in interest rates; compliance by the Company's lessees with obligations under their respective leases; no sudden current economic downturn or unanticipated future financial crises; deviations from the assumption that future major maintenance expenses will be relatively evenly spaced over the entire portfolio; large unanticipated maintenance expenses; and future trends and results that cannot be predicted with certainty. The cautionary statements made in this Report should be read as being applicable to all related forward-looking statements wherever they appear herein. All forward-looking statements and risk factors included in this document are made as of the date hereof, based on information available to the Company as of the date hereof, and the Company assumes no obligation to update any forward-looking statement or risk factor. You should consult the risk factors listed from time to time in the Company's filings with the Securities and Exchange Commission.

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## Item 1. Financial Statements.

AeroCentury Corp.  
Condensed Consolidated Balance Sheets  
(Unaudited)

ASSETS	March 31, 2017	December 31, 2016
Assets:		
Cash and cash equivalents	\$2,808,600	\$2,194,400
Accounts receivable, including deferred rent of \$874,700 and \$604,800 at March 31, 2017 and December 31, 2016, respectively	4,695,100	4,046,100
Finance leases receivable	26,145,000	17,468,300
Aircraft and aircraft engines held for lease, net of accumulated depreciation of \$34,344,700 and \$32,639,600 at March 31, 2017 and December 31, 2016, respectively	186,015,000	192,799,800
Assets held for sale	1,995,800	1,998,100
Prepaid expenses and other	372,100	229,400
Total assets	\$222,031,600	\$218,736,100
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$1,097,900	\$1,218,100
Notes payable and accrued interest, net of unamortized debt issuance costs of \$1,799,600 and \$1,999,900 at March 31, 2017 and December 31, 2016, respectively	129,253,200	125,837,900
Maintenance reserves	29,167,500	29,424,100
Accrued maintenance costs	355,100	965,000
Security deposits	4,361,200	3,933,200
Unearned revenues	3,832,900	1,903,900
Deferred income taxes	13,145,300	12,830,500
Income taxes payable	209,500	123,200
Total liabilities	181,422,600	176,235,900
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 2,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.001 par value, 10,000,000 shares authorized, 1,629,999 shares issued, 1,416,699 and 1,566,699 shares outstanding at March 31, 2017 and December 31, 2016, respectively	1,600	1,600
Paid-in capital	14,780,100	14,780,100
Retained earnings	28,864,100	28,222,600
	43,645,800	43,004,300
Treasury stock at cost, 213,300 and 63,300 shares at March 31, 2017 and December 31, 2016, respectively	(3,036,800 )	(504,100 )
Total stockholders' equity	40,609,000	42,500,200
Total liabilities and stockholders' equity	\$222,031,600	\$218,736,100

The accompanying notes are an integral part of these statements.



AeroCentury Corp.  
Condensed Consolidated Statements of Operations  
(Unaudited)

	For the Three Months Ended March 31,	
	2017	2016
Revenues and other income:		
Operating lease revenue, net	\$7,316,900	\$6,044,300
Finance lease revenue	325,400	185,100
Net gain on disposal of assets	13,900	5,400
Net gain on sales-type finance leases	297,400	-
Other income	200	1,300
	7,953,800	6,236,100
Expenses:		
Depreciation	2,936,100	2,079,500
Interest	1,610,300	1,289,000
Management fees	1,506,800	1,264,000
Professional fees, general and administrative and other	506,100	424,700
Maintenance	256,100	319,900
Insurance	73,200	76,600
Other taxes	22,600	22,700
Provision for impairment in value of aircraft	-	75,000
	6,911,200	5,551,400
Income before income tax provision	1,042,600	684,700
Income tax provision	401,100	251,000
Net income	\$641,500	\$433,700
Earnings per share:		
Basic	\$0.41	\$0.28
Diluted	\$0.41	\$0.28
Weighted average shares used in earnings per share computations:		
Basic	1,550,032	1,566,699
Diluted	1,550,032	1,566,699

The accompanying notes are an integral part of these statements.

AeroCentury Corp.  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	For the Three Months Ended March 31,	
	2017	2016
Net cash provided by operating activities	\$4,258,100	\$5,529,000
Investing activities:		
Proceeds from sale of aircraft and aircraft engines held for lease, net of re-sale fees	570,100	1,485,600
Proceeds from sale of assets held for sale, net of re-sale fees	16,200	1,755,900
Investment in direct financing leases	(7,354,100)	-
Investment in aircraft parts and acquisition costs	(62,800)	-
Net cash (used in)/provided by investing activities	(6,830,600)	3,241,500
Financing activities:		
Issuance of notes payable – Credit Facility	7,000,000	-
Repayment of notes payable – Credit Facility	(2,800,000)	(8,600,000)
Repayment of notes payable – special purpose financing	(1,013,300)	